



PRESS RELEASE

Internal Revenue Service - Criminal Investigation *Chief Richard Weber*

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Contact: *CI-HQ-COMMUNICATIONSEDCATION@ci.irs.gov
IRS – Criminal Investigation

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Retired Judge, Attorney and Psychologist Indicted in \$600 Million Social Security Fraud Scheme

Thousands of Kentucky Claimants Improperly Received Disability Benefits

A retired administrative law judge, a lawyer and a psychologist were charged in a federal indictment unsealed today for their roles in a scheme to fraudulently obtain more than \$600 million in federal disability payments for thousands of claimants.

Assistant Attorney General Leslie R. Caldwell of the Justice Department's Criminal Division; Special Agent in Charge Michael McGill of the Social Security Administration-Office of Inspector General's (SSA-OIG) Philadelphia Field Division; Special Agent in Charge Howard S. Marshall of the FBI's Louisville, Kentucky, Field Division; Special Agent in Charge Tracey D. Montaña of Internal Revenue Service Criminal Investigations (IRS-CI) Nashville, Tennessee, Field Office; and Special Agent in Charge Derrick Jackson of the U.S. Department of Health and Human Services-Office of the Inspector General (HHS-OIG) Atlanta Regional Office made the announcement.

David Black Daugherty, 81, of Myrtle Beach, South Carolina; Eric Christopher Conn, 55, and Alfred Bradley Adkins, 44, both of Pikeville, Kentucky, were charged in an 18-count indictment returned on April 1, 2016, in the U.S. District Court for the Eastern District of Kentucky. The indictment was unsealed upon Conn's arrest and initial court appearance today before U.S. Magistrate Judge Robert E. Wier of the Eastern District of Kentucky. Conn was detained pending his detention hearing, which is scheduled for April 7, 2016.

The indictment charges all three defendants with one count of conspiracy to commit mail and wire fraud. In addition, Conn is charged with three counts of mail fraud, three counts of wire fraud, two counts of obstruction, two counts of false statements, one count of conspiracy to commit money laundering, four counts of money laundering, and one count of conspiracy to structure payments. Adkins is charged with one count of mail fraud, one count of wire fraud, and one count of false statements. Daugherty also is charged with two counts of mail fraud, two counts of wire fraud, and one count of conspiracy to commit money laundering.

“The defendants are charged with designing an intricate scheme, using their expertise and positions of authority, to fraudulently induce payment of \$600 million in federal disability and healthcare benefits,” said Assistant Attorney General Caldwell. “While Social Security disability programs are designed to support the disabled, the defendants allegedly used it to enrich themselves. Today’s arrests demonstrate, however, that the Criminal Division will root out greed and corruption wherever they may be found.”

“The Social Security Administration Office of the Inspector General is committed to pursuing those who violate the public trust by conspiring to misrepresent disabling conditions to defraud not only Social Security, but all American taxpayers,” said Special Agent in Charge McGill. “We will continue to uphold the integrity of Social Security’s disability programs, which are a lifeline for so many Americans and their families. I would like to thank the Department of Justice’s Criminal Division, and in particular, the division’s Fraud Section, for their willingness to take on this case and their diligent efforts to ensure these individuals will be held accountable for their actions.”

“As I stated just a few days ago when announcing charges against Kentucky Deputy Attorney General Timothy Longmeyer, the Louisville FBI is committed to cleaning up Kentucky,” said Special Agent in Charge Marshall. “The allegations against these defendants is yet another example of Kentucky’s historical willingness to accept corruption as the status quo. Although cleaning up Kentucky is a long and difficult process, today’s announcement is another step toward ending public corruption and taking back the commonwealth from those who corrupt it.”

“IRS-Criminal Investigation is committed to unraveling complex fraud and money laundering schemes,” said Special Agent in Charge Montaño. “The allegations in this case describe a gross abuse of a system that was established to provide assistance to those truly in need. The defendants are alleged to have conspired to use their positions, to corrupt the system for their own personal gain, at the expense of the American taxpayers who fund the Social Security system. We are proud to work with our law enforcement partners to investigate and prosecute individuals who attempt to enrich themselves by fraudulent means.”

“This scheme allegedly enrolled ineligible people in Medicare and Medicaid,” said Special Agent in Charge Jackson. “We are working with our law enforcement partners to protect these government health care programs funded by our taxpayer dollars.”

The indictment alleges that from October 2004 to Feb. 13, 2012, Conn, Daugherty and Adkins conspired to defraud the government by, among other things, submitting false and fraudulent medical documentation to the SSA in order to have the SSA pay claimants’ retroactive disability benefits, continue to pay claimants’ disability benefits in the future, award Medicare and Medicaid benefits to claimants and pay Conn’s attorney fees. According to the indictment, the conspirators intended that the SSA disburse more than \$600 million in disability benefits in more than 2,000 cases to claimants in Kentucky and elsewhere, irrespective of the claimants’ actual entitlement to benefits. Conn, Adkins and Daugherty allegedly received more than \$5 million during the nearly eight-year scheme.

According to the indictment, Conn is an attorney whose firm in Floyd County has focused for the past 20 years primarily on representing individuals seeking Social Security disability benefits; Adkins is a clinical psychologist who performed medical evaluations for Conn from 2004 through 2011; and Daugherty is a former SSA administrative law judge who began working with the SSA in 1990 and was assigned to the Office of Disability and Adjudication Review hearing office in Huntington, West Virginia, which maintained a satellite office in Prestonsburg, Kentucky, and handled the claims of Kentucky claimants who requested hearings. Daugherty, who retired in July 2011, was responsible for deciding whether claimants were disabled and entitled to benefits.

As part of the scheme, Conn allegedly filed disability applications with the Prestonsburg Field Office, irrespective of the claimants' residence in an effort to ultimately bring the cases before the Huntington Hearing Office, where Daugherty either self-assigned or directed others to assign those cases to himself. Daugherty allegedly solicited Conn to submit falsified medical evidence so that Daugherty could issue fully favorable decisions. Adkins and others performed pretextual physical and mental evaluations on claimants, the indictment alleges. They routinely prepared and signed evaluation reports indicating that claimants had limitations considered disabling by the SSA, irrespective of claimants' actual physical or mental conditions, according to the indictment.

According to the indictment, once the law enforcement investigation began, Conn allegedly threatened to retaliate against another person's livelihood when that person provided truthful information to a law enforcement officer about the scheme. Conn also allegedly destroyed and directed others to destroy evidence, including federal reports, a computer tower and other electronic hardware and media located at his law firm.

An indictment is merely an allegation and all defendants are presumed innocent unless and until proven guilty beyond a reasonable doubt in a court of law.

The SSA-OIG, the FBI, IRS-CI and HHS-OIG investigated the case. Trial Attorney Dustin M. Davis and Special Trial Attorney Trey Alford of the Criminal Division's Fraud Section and Trial Attorney Kristen M. Warden of the Criminal Division's Asset Forfeiture and Money Laundering Section are prosecuting the case.

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